Denali Commission
January 1 – March 31, 2008 Progress Report
Agrium Kenai Gasification Project

On March 13, 2008, Agrium issued a press release stating the conclusion of the Kenai coal gasification evaluation as follows:

> CALGARY, Alberta -- Agrium Inc. (TSX and NYSE: AGU) announced today that it has determined that current economics are not sufficient to proceed with a gasification facility to supply coal-based syngas to our Kenai nitrogen facility. The mothball of the facility will be completed shortly.
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> Agrium continues to advance other gasification opportunities and has a nitrogen off-take agreement with Faustina Hydrogen Products LLC in Louisiana, with an anticipated startup in 2011. In Alberta, Agrium is currently reviewing gasification opportunities of syngas derived from byproducts of bitumen upgrading. Additionally, Agrium continues to examine other gasification possibilities.

Unfortunately, this will conclude the Kenai Gasification Project. We would like to thank the Denali Commission for providing the grant funds to study the feasibility of the project. We sincerely appreciate the Denali Commission's support and regret that we were not successful in bringing the project to fruition.

The Kenai Gasification Project (KGP) value proposition was to transform a natural gas based valued added manufacturing facility which was forced into closure due to the lack of domestic natural gas supply in Cook Inlet. KGP would use coal to overcome the shortfall of domestic natural gas and retain this value added component in the South Central Alaskan economy through the employment of proven technology, Alaskan feedstock, and strategic partnerships. The total capital requirement was projected to exceed $2 billion USD. The following represented the keys to success for the Kenai Gasification Project:

- ☑ **Technical Viability:** The project completed a substantial amount of engineering and design to prove that gasification can be used to supply feedstock to KNO.
- ☑ **Permit ability:** The world view on coal and climate changed dramatically over the course of the KGP investigation. Nevertheless, multiple consultants experienced in the business of permitting coal projects believed the project could be permitted.
- ☑ **Stable, low cost feedstock:** The low rank coal from Alaska is a good feedstock option because the alternative markets are limited, creating a stable price for large volumes. The transportation costs greatly increased the total delivered cost of the coal.
- ☑ **Project Economics:** The project was able to project strong economics for the base case using a LSTK EPC approach and Alaska Railroad tax free bond financing.
- ☒ **KGP Partners:** KGP was unable to attract equity partners to join KGP at this stage of development. While we advanced to a term sheet stage with partner candidates, the perceived risk was not swayed by the long term economics. The current world economy ultimately had a substantial impact on the willingness of partners to invest in KGP.

In the lessons learned with KGP, it is clear that gasification is technically a feasible solution to sustained operations at Kenai. While the base economics for KGP were strong, they were not overly robust. Through nearly two years of effort, Agrium was unable to attract a partner to KGP under the current project economics. One of the big challenges was the supply of energy to the project. The substantial power and steam requirements for the project could not be obtained from local utilities. None of the local

utilities had the wherewithal to develop this size of project despite their expressed interest and substantial efforts, especially on the part of Homer Electric Association.

Gasification represents a great opportunity for the State of Alaska to develop and utilize its vast coal resources in an economic and environmentally friendly way. The benefits of KGP were tremendous for Alaska and would have provided a means to diversify an energy portfolio that is almost exclusively weighted toward the petroleum industry. Alaska should continue to look to coal as a means of energy diversification.